

Should accounting face facts or stick its head in the s...

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I [wrote yesterday about my proposal for sustainable cost accounting](#). One commentator, in particular, engaged with me on this issue. In [several lengthy exchanges](#) it became apparent that he did not like the proposal. I think it fair to say that Julian, which was the name my opponent gave, had three principle objections.

The first was that accounts should be objective reports on what has happened.

The second was that accounts are not instruments for change, which he thought government should deliver. He too, especial exception to my suggestion that sustainable cost accounting assume no offsetting without government licence.

Third, he wants a carbon tax. I have major reservations about carbon taxes. I will not be addressing that issue here.

I wrote this comment in response to the first two objections and thought it worth sharing more widely.

What we are seeing here is a clash of world views.

Let's start with accounting. Nothing in a set of accounts is neutral. Nor can a set of accounts ever just be a report. Accounting is always about providing decision useful information. And the framing that accounting supplies is of course determined by the decision that we want to make.

It is my suggestion to you that there is no chance that many businesses will survive in their existing form in thirty years time. That's not really very surprising. Just think back thirty years and imagine just how different things are now. But, and there is a massive but in this case, that change has now to be directed to ensure we reach net zero carbon. We cannot rely on random change any more, when so often this has been bad for the planet.

That, necessarily, requires that direction be given. It requires engagement by government. And precisely because I use the word 'net' to preface zero carbon I

recognise that offset is going to happen, because of course it is. But your own commentary shows that this is not going to succeed without regulation: there is no chance that all those claiming they will offset can do so. My suggestion on this issue is in this case recognition of a necessity.

But so too is the fact that I suggest that the need for reform be recognised now, and so upfront, a necessity. The fact that this will indicate that many businesses will not survive is inevitable. Over thirty years that is what happens. But we have never lived in an age where understanding who might have the capacity to survive that process of change has been more important.

That is because of the scale of financialisation within our economy. That is not a strength in my opinion, but is a weakness. We have over invested in intangible financial wealth and not real capital. The consequence is that we have to know with some reliability in which financialised product we should have confidence over another. To put it bluntly, we need to know which shares might have the likelihood of long term value, and which do not. The intention of my work is in no small part to assist investment decision making. It's at the core of one of the purposes of accounting. All I am suggesting is that be made plain. How can you object to that?

Another purpose of accounting is to influence management behaviour. For example, the focus on profit is not by chance: it is to direct management.

Again, the focus on tangible assets is a historical legacy, recognising that these represented realisable capital in the event of insolvency. Intangibles have always been of more dubious use for this purpose, and so have been, until, very recently of lower significance.

The refusal to recognise human capital has its own significance.

As was the assumption that externalities were of no consequence - and so therefore unpriced. The choice within accounting was to permit and encourage the plunder of nature for profit by assuming it was there to be used. To pretend that accounting is neutral when this is the case is just wrong.

In my opinion the climate (and biodiversity) crisis that we are facing is of immense proportion. Governments do at least pay lip service to that. But lip service or not, they are also making it clear that transformation is required. The demand that we cease producing petrol and diesel cars is obvious indication of that. But it is, very clearly the case that the transformation must be faster than many contemplate, and more comprehensive.

The issue implicit in what I propose (which despite your claims is more than adequate for an accounting standard, which are always principles based) is that accounting has to be integral, in itself, in that process of change. You can disagree with that, but what I

propose is wholly consistent with the long term goal of much of accounting.

Accounting's aim, as stated by the International Financial Reporting Standards Foundation is to direct capital to those most likely to be able to use it to best effect on behalf of society. All I am seeking to do is aid that process by targeting attention on those best able to use capital as we go through a period of great change.

That change will require radical business re-engineering. Since accounting is, by necessity, a forward looking discipline since the going concern concept requires that, what objection can you have to the focus of that forward looking dimension on the issue of greatest importance now in determining whether or not an entity might survive, which is its ability to work within a net zero carbon framework?

What I am suggesting is wholly consistent with best accounting practice. The uncomfortable fact that you do not like is that it will expose the lack of preparedness in many businesses for what is to come. But what would you rather? That we have accounts that face the truth, or that we stick our heads in the sand?